

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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|----------------------------------------|---|----------|
| THE APPLICATION OF BOWLING GREEN |) | |
| MUNICIPAL UTILITIES FOR AN INCREASE IN |) | CASE NO. |
| WATER AND SEWER RATES TO WARREN COUNTY |) | 95-044 |
| WATER DISTRICT |) | |

O R D E R

IT IS ORDERED that Bowling Green Municipal Utilities ("BGMU") shall file the original and 10 copies of the following information with the Commission no later than July 6, 1995, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. a. Explain the discrepancy between the total water depreciation expense of \$854,655 reflected in BGMU's Response to the Commission's Order of May 23, 1995, Item 7, and the total water

depreciation expense of \$580,992 reflected in BGMU's Response to the Commission's Order of April 7, 1995, Appendix 7, B-1, at 22.

b. Explain the discrepancy between total sewer depreciation expense of \$854,655 reflected in BGMU's Response to the Commission's Order of May 23, 1995, Item 7, and the total sewer depreciation expense of \$812,202 reflected in BGMU's Response to the Commission's Order of April 7, 1995, Appendix 7, C-1, at 13.

2. Refer to BGMU's Response to the Commission's Order of May 23, 1995, Item 13, Exhibit PSC-8. Provide invoices for the expenses listed.

3. Refer to BGMU's Response to the Commission's Order of April 7, 1995, Appendix 6 ("Accountants' Report and Combined Financial Statements") at 3.

a. Provide a detailed schedule which lists the types of revenues included as miscellaneous sales for the year ending June 30, 1994.

b. Provide a detailed schedule listing the types of revenues included as non-utility operations for the year ending June 30, 1994.

c. Describe the nature of the revenues reported as industrial sewer surcharges for the year ending June 30, 1994.

d. Will fire hydrant maintenance revenue recur annually? If no, provide a schedule showing the frequency and amount of expected fire hydrant maintenance revenue.

e. Are the funds in the revenue accounts referred to in items (a) - (d) available to offset BGMU's operation and maintenance expenses? Explain.

4. Refer to BGMU's response to the Commission's Order of April 7, 1995, Appendix 6, at 3.

a. Provide a detailed schedule of amortization expense for the year ending June 30, 1994.

b. Provide supporting evidence for this expense.

c. For any amortization expense related to debt discount and expense, state whether any of this expense was paid from bond proceeds.

5. Refer to BGMU's Response to the Commission's Order of April 7, 1995, Appendix 6, at 3.

a. Provide a detailed schedule of interest expense for the year ending June 30, 1994. Items should be classified as long-term or short-term expenses.

b. For each debt instrument for which interest expense was paid, specify when that debt instrument will be retired.

6. Provide two copies of BGMU's Response to Warren County Water District's ("Warren District") Open Records Act Request of February 9, 1995.

7. Provide two copies of the cash disbursements journal or check register showing expenses paid from July 1993 through December 1994.

8. Refer to BGMU's Response to Warren District's Request of May 23, 1995, Request No. 2.

a. Were Items 1 - 14 reflected differently in the Cost-of-Service Study than in the lead schedule to allocate administrative and general or overhead expenses among the various cost categories?

b. Why is a different method of allocation necessary to prepare the cost-of-service study?

c. Describe the methodology used to determine the appropriate allocation of these costs. Show calculations.

9. a. Explain the discrepancy between the total amounts shown for depreciation expense allocated to transmission on BGMU's Application, Item F, Table 13, and in BGMU's Response to the Commission's Order of April 7, 1995, Appendix 7, B-1, at 22.

b. Explain the discrepancy between the total amounts shown for depreciation expense allocated to distribution on BGMU's Application, Item F, Table 13, and in BGMU's Response to the Commission's Order of April 7, 1995, Appendix 7, B-1, at 22.

10. Refer to BGMU's Response to Warren District's Request of May 23, 1995, Request No. 16. Provide calculations which show that BGMU's debt coverage for the fiscal year ended June 30, 1994, shrinks from 2.69 to 1.80 when all BGMU's outstanding long-term debt is considered.

11. Provide a schedule showing the annual principal and interest requirements for BGMU's Series 1985 Bonds, Kentucky Infrastructure Authority loans and Trans Financial Bank Loan for the years 1996 - 2000. Provide a five-year average debt service

requirement and show the amounts to be allocated to the water division and the sewer division.

12. Refer to BGMU's Response to Warren District's Request of May 23, 1995, Request No. 16E. State the amount of current reserves attributable to interest earned on excess coverage.

13. Refer to BGMU's Response to the Commission's Order of May 23, 1995, Item 28. Explain how the cash needs approach sets out a method in which to allocate costs to customer groups once the revenue requirement is determined.

14. a. Is the cash needs approach used only to determine total revenue requirements?

b. Does the American Water Works Association ("AWWA") recognize the cash needs approach as a method for cost allocation? If yes, identify the AWWA publication in which the approach is recognized and refer to the specific page where such recognition is made.

15. Identify what studies of BGMU's system were performed in preparation of its rate application.

16. Provide all studies, analyses, and publications which support the methodology which BGMU used to distribute its costs between BGMU and Warren District.

17. a. Did Mr. Gastineau review the Warren District's usage with regard to the average day, maximum day, and maximum hour demands it places on BGMU's system?

b. If yes, what were the results of his review?

c. If no, why was no such review performed?

18. Provide an updated cost-of-service study using the methodology set out in the Joint Memorandum Report to include current expenses and depreciation expenses.

19. a. State whether BGMU has the information necessary to perform a cost-of-service study using the base extra capacity method.

b. If no,

(1) How long will it take BGMU to obtain this information?

(2) Why has BGMU not obtained this information?

20. Given the number and diversity of BGMU's customers, its total sales, and the size and complexity of its operations, and explain why a revenue requirement approach was chosen because of its "relative simplicity."

21. a. How is the Joint Memorandum Report's methodology "unnecessarily complicated" when compared with widely accepted methodologies such as the base-extra capacity or the commodity-demand method?

b. When compared to the base-extra capacity or the commodity-demand methods, does Mr. Gastineau consider the cash needs method and the Joint Memorandum Report's methodology to be oversimplified for a utility the size of BGMU?

22. a. Has Mr. Gastineau performed any cost-of-service studies using the base-extra capacity methodology?

b. Has Mr. Gastineau performed any cost-of-service studies using the commodity-demand methodology?

23. For each allocation factor set forth in BGMU's Application, Appendix F, Tables 11, 12 and 13, explain how the allocation factor was determined and why it is a fair allocation of costs. Responses which refer to Mr. Gastineau's Testimony or which state that costs should be distributed in proportion to use are not responsive.

24. Refer to Testimony of Ron Gastineau, Exhibit A.

a. Did Mr. Gastineau consider segregating the costs into operational costs which would vary depending on the size of the meter and business costs which would not vary with meter size such as meter reading and customer accounting?

b. If no, why not?

25. a. When did BGMU retain Mr. Gastineau to perform a cost-of-service study?

b. What instructions did BGMU give Mr. Gastineau regarding the cost-of-service study?

Done at Frankfort, Kentucky, this 21st day of June, 1995.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director